

Message Text

UNCLASSIFIED

PAGE 01 SINGAP 03952 01 OF 02 200917Z

16

ACTION EA-09

INFO OCT-01 ISO-00 COME-00 AID-05 OPIC-06 EB-07 CIAE-00

INR-07 NSAE-00 L-03 TRSE-00 /038 W

----- 061407

R 200700Z AUG 76

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 6006

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

UNCLAS SECTION 1 OF 2 SINGAPORE 3952

E.O. 11652: N/A

TAGS: ECON, ECRE, SN

SUBJECT: ASEAN DIESEL ENGINE PROJECT

REF: A. STATE 194311 B. KUALA LUMPUR 4705

1. AT THE ASEAN TRADE AND INDUSTRY MINISTERS' MEETING IN KUALA LUMPUR LAST MARCH (REF B), IT WAS AGREED THAT THE FIVE ASEAN PROJECTS WOULD GO AHEAD AND WOULD GET "ADEQUATE" ASEAN GOVERNMENT SUPPORT. SINGAPORE'S ECONOMIC DEVELOPMENT BOARD (EDB) THEN BEGAN TO HOLD DISCUSSIONS WITH INTERNATIONAL DIESEL ENGINE MANUFACTURERS. THESE ARE BELIEVED TO HAVE INCLUDED FOLLOWING U.S. COMPANIES: CATERPILLAR, FORD, CUMMINGS, INTERNATIONAL HARVESTER, ALLIS CHALMERS, DETROIT DIESEL (GM).

2. THESE AND OTHER SELECTED COMPANIES WERE ASKED TO COMPLETE A COMPANY PROFILE AND SUBMIT PROJECT PROPOSALS TO MANUFACTURE ONE OR MORE RANGES OF DIESEL ENGINE. IN REPLY, WE UNDERSTAND THAT CATERPILLAR HAS INDICATED SERIOUS INTEREST AND IS PREPARED TO DO A DETAILED FEASIBILITY STUDY. CUMMINGS HAS ALSO SENT OFFICIALS TO SINGAPORE RECENTLY TO DISCUSS PROJECT PARTICIPATION WITH THE EDB. SEVERAL MONTHS AGO, OFFICIALS FROM ALLIS-CHARLMERS

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SINGAP 03952 01 OF 02 200917Z

AND FORD ALSO EXPLORED PARTICIPATION, BUT EMBASSY HAS THE

IMPRESSION THAT THESE FIRMS ARE NOT AS SERIOUSLY INTERESTED AS CUMMINGS OR CATERPILLAR.

3. EDB PROFESSES TO BE SOMEWHAT DISAPPOINTED AT U.S. FIRMS RESPONSE TO THIS PROJECT. EDB PROJECT OFFICER ATTRIBUTES THIS TO FACT THAT SOME US COMPANIES ARE SKEPTICAL THAT ASEAN PROJECTS WILL GET OFF GROUND. FURTHERMORE, U.S. COMPANIES ARE USED TO ECONOMIES OF SCALE, AND MAY FEEL MARKET HERE DOESN'T JUSTIFY LARGE-SCALE PLANT. NEVERTHELESS, EDB HAS ON SEVERAL OCCASIONS IN RECENT MONTHS WAVED OFF EMBASSY OFFER TO ASSIST IN PUBLICIZING PROJECT OPPORTUNITY. EDH HAS FELT IT IS PERFECTLY CAPABLE OF DISCOVERING MOST QUALIFIED U.S. FIRMS AND HAS PREFERRED TO APPROACH THEM DIRECTLY. ITS STAFF IN THE U.S. IS KNOWN TO HAVE VISITED SEVERAL MANUFACTURING PPANTS.

4. IN PREPARING THEIR PROJECT PROPOSALS, FIRMS WERE ASKED TO TAKE INTO ACCOUNT CERTAIN BASIC GUIDELINES. WE ARE QUOTING THESE AT LENGTH BELOW (PARAS 5-12), BECAUSE WE UNDERSTOOD THAT SIMILAR GUIDELINES WILL APPLY TO THE OTHER PROPOSED ASEAN PROJECTS.

5. BASIC CONSIDERATION. THE BASIC PRINCIPLE IN THE ASEAN INDUSTRIAL COOPERATION SCHEME, INCLUDING THIS DIESEL ENGINE PROJECT, IS THAT, TAKING ADVANTAGE OF THE LARGER ASEAN MARKET, INDUSTRIES WHICH COULD NOT BE VIABLY SET UP IN ANY ASEAN COUNTRY, COULD BE VIABLE AND EFFICIENT IF ESTABLISHED ON A REGIONAL BASIS. SUCH COOPERATION SCHEME WOULD PROVIDE OPPORTUNITIES FOR THE EXPANSION AND DIVERSIFICATION OF TRADE AND INDUSTRIAL DEVELOPMENT TO THE BENEFIT OF ALL MEMBER COUNTRIES.

6. COMPANY ORGANIZATION. THE ASEAN DIESEL ENGINE PLANT WILL BE OWNED AND OPERATED ALONG THE LINES OF A PRIVATE COMPANY. THE GOVERNMENT DEVELOPMENT AGENCIES AND PRIVATE INVESTORS IN ALL FIVE ASEAN COUNTRIES MAY PARTICIPATE. BEING DESIGNATED AS THE HOST COUNTRY, SINGAPORE WILL HAVE THE MAJORITY HOLDING AMONG THE ASEAN SHAREHOLDERS. HOWEVER, IN ADDITION TO THE ASEAN EQUITY (EQUITY HOLDING BY ASEAN GOVERNMENTS AND PRIVATE INVESTORS), AN INTERNATIONAL COMPANY UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SINGAP 03952 01 OF 02 200917Z

WHICH PROVIDES THE TECHNICAL KNOW-HOW AND MANAGEMENT CAN BE A SUBSTANTIAL EQUITY SHAREHOLDER IN THE PROJECT.

7. PHASES OF DEVELOPMENT- PRODUCT RANGES AND APPLICATIONS. THE ASEAN DIESEL ENGINE PLANT IS EXPECTED TO PRODUCE EVENTUALLY ALL H.P. RANGES OF DIESEL ENGINES FOR ALL TYPES OF APPLICATION- STATIONARY, AUTOMOTIVE, MARINE AND MACHINERY, ETC. HOWEVER, THE FIRST PHASE OF THE PROJECT IS EXPECTED TO INVOLVE

MAINLY MODELS BELOW 250 H.P. THE ENGINES PRODUCED IN THE SINGAPORE ASEAN PLANT ARE EXPECTED TO BE USED IN ALL ASEAN COUNTRIES AND SHIPPED TO THEM IN ALL FORMS (CBU, SKD AND CKD) FOR THEIR EXISTING NATIONAL ASSEMBLY PLANTS AND FOR ALL TYPES OF END-USING INDUSTRIES.

8. PRODUCTION COST AND PRODUCT PRICING. IN THE LONG RUN, THE PROJECT SHOULD BE INTERNATIONALLY COMPETITIVE IN ITS PRODUCTION COST AND PRODUCT PRICING.

9. INTEGRATION. THE ASEAN DIESEL PLANT SHOULD BE SUFFICIENTLY INTEGRATED TO INCLUDE FOUNDRY AND MACHINING OPERATIONS FOR MAIN PARTS AND COMPONENTS. AT THE SAME TIME, SINGAPORE WILL ENCOURAGE THE ESTABLISHMENT OF PARTS AND COMPONENTS MANUFACTURING OPERATIONS BY SUBCONTRACTORS.

10. EXCLUSIVITY AND NUMBER OF ASEAN DIESEL PLANTS. THE PROPOSED ASEAN DIESEL ENGINE PLANT IN SINGAPORE WILL BE THE ONLY ONE TO BE DESIGNATED AS THE ASEAN PROJECT FOR THE MANUFACTURE OF DIESEL ENGINES IN THE REGION. IT WILL BE THE ONLY PLANT TO BE ACCORDED ASEAN TRADE PREFERENCE BY ALL MEMBER COUNTRIES. SIMILAR NEW NATIONAL DIESEL PROJECTS CAN ONLY BE ESTABLISHED AFTER CONSULTATION WITH ALL MEMBER COUNTRIES AND ALSO ON CONDITION THAT THE BASIS FOR THE ASEAN DIESEL PLANT IN SINGAPORE WILL NOT BE AFFECTED BY ANY PROPOSED NEW NATIONAL PROJECTS.

11. TRADE PREFERENCE. ALL ASEAN MEMBER COUNTRIES WOULD EXTEND TO THE PROJECT ADEQUATE TRADE PREFERENCE AND THE NECESSARY MARKET SUPPORT WHICH MAY INCLUDE: TARIFF PROTECTION, ANTI-DUMPING PROVISIONS AND PREFERENTIAL GOVERNMENT PURCHASES.

12. OBLIGATIONS OF INTERNATIONAL COMPANIES PARTICIPATING IN UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SINGAP 03952 01 OF 02 200917Z

THE PROJECT. ANY INTERNATIONAL COMPANY SELECTED FOR PARTICIPATION IN THE ASEAN DIESEL ENGINE PROJECT WILL HAVE THE FOLLOWING OBLIGATIONS:

(A) TO HELP IN OBTAINING AS MUCH AS POSSIBLE EXPORT MARKETS OUTSIDE ASEAN COUNTRIES.

(B) TO ENSURE THE CONTINUING SUPPLY OF THE MOST UP-TO-DATE TECHNOLOGY. (END OF GUIDELINES).

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 SINGAP 03952 02 OF 02 200925Z

16

ACTION EA-09

INFO OCT-01 ISO-00 COME-00 AID-05 OPIC-06 EB-07 CIAE-00

INR-07 NSAE-00 L-03 TRSE-00 /038 W

----- 061506

R 200700Z AUG 76

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 6007

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

UNCLAS SECTION 2 OF 2 SINGAPORE 3952

13. PRESENT PROJECT STATUS IS THAT EDB HAS IDENTIFIED CLEAR LEADERS FOR CERTAIN RANGES OF DIESEL ENGINE, AND STILL TALKING WITH FIRMS IN OTHER AREAS. WE SUSPECT THAT JAPANESE (YANMAR) MIGHT HAVE INSIDE TRACK IN LOWER RANGE (18-30H.P.) AND GERMAN IN HIGHER (300-1500 H.P.). BEST U.S. PROSPECT IS IN MIDDLE RANGE (200-300 H.P.) OF AUTOMOTIVE, LIGHT INDUSTRIAL, AND AGRICULTURAL DIESELS.

14. GOS WILL SELECT FIRM ON BASIS OF FOLLOWING CRITERIA: CAPACITY, DEGREE OF MANUFACTURING INTEGRATION, MARKET STRENGTH (IN THE REGION AND WORLD-WIDE), TECHNOLOGY, AND FINANCIAL STRENGTH. HOWEVER, GOS STILL NEEDS TO COMPLETE IN-HOUSE FEASIBILITY STUDIES AND WORK OUT ASEAN DETAILS (PREFERENTIAL TRADING ARRANGEMENTS, GOVERNMENT PURCHASING, ETC). WHEN THIS IS DONE, EDB WILL SET UP FIRM TO DO DETAILED ENGINEERING WORK ON PROJECT.

15. AUGUST 5 STRAITS TIMES(ST) REPORTED PROGRESS IN ASEAN FORUM: ST QUOTED MALAYSIA TRADE AND INDUSTRY DATUK HAMZAH ABU SAMAH AS STATING THAT ASEAN ECONOMIC AND FINANCE MINISTERS HAVE AGREED THAT HOST COUNTRY WAS ENTITLED TO HOLD SIXTY PERCENT OF EQUITY IN ASEAN PROJECTS, WITH REMAINDER TO BE EQUALLY SHARED AMONG THE OTHER ASEAN MEMBERS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SINGAP 03952 02 OF 02 200925Z

16. ACCORDING TO EDB, EXISTING DIESEL PROJECTS IN THE REGION (KUALA LUMPUR, JAKARTA, MANILA) WILL NOT BE INTERESTED WITH, BUT WOULD NOT BE ALLOWED TO EXPAND ONCE SINGAPORE PROJECT IS BUILT. THERE WOULD BE A COMMON EXTERNAL ASEAN TARIFF FOR DIESEL ENGINES, ONE WHICH WOULD EFFECTIVELY DENY THE MARKET TO OUTSIDE PRODUCERS.

17. ACTION SUGGESTED: IN VIEW OF GOS PREFERRED STYLE OF DOING BUSINESS, EMBASSY DOES NOT REPEAT NOT THINK IT ADVISABLE THAT DEPARTMENT OR USDOC PUBLIZE THIS PROJECT WIDELY AMONG U.S. DIESEL MANUFACTURERS. DEPARTMENT MAY WISH, HOWEVER, IF APPROACHED BY ANY MAJOR U.S. COMPANIES SUCH AS THOSE LISTED PARA ONE, TO SHARE WITH THEM CONTENTS OF THIS MESSAGE.

18. IN EMBASSY'S OPINION, SINGAPORE IS DEAD SERIOUS ABOUT THIS PROJECT AND, UNLESS UNFORSEEN HITCHES DEVELOP, IS LIKELY TO GET IT OFF THE GROUND WITH ITS CHARACTERISTIC SPEED AND EFFICIENCY. DIESEL MANUFACTURERS WHO FAIL TO GET IN UNDER THE ASEAN UMBRELLA RUN THE RISK OF BEING SHUT OUT OF A LARGE AND GROWING MARKET.
HOLDRIDGE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRIAL DEVELOPMENT, PROGRAMS (PROJECTS), DIESEL ENGINES, MARKET OPPORTUNITIES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SINGAP03952
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760319-0854
From: SINGAPORE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760833/aaaabcsu.tel
Line Count: 246
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 STATE 194311
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by ReddocGW>; APPROVED <08 DEC 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ASEAN DIESEL ENGINE PROJECT
TAGS: ECON, ECRE, EIND, SN, US, ASEAN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006